Philippines Compact

April 3, 2018

MILLENNIUM CHALLENGE CORPORATION
UNITED STATES OF AMERICA

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Introduction

The Millennium Challenge Corporation's $434 million compact in the Philippines supported reforms and infrastructure in the country through three projects. First, the compact modernized the Bureau of Internal Revenue by redesigning and computerizing business processes that increased the efficiency and sustainability of revenue collection. Second, the compact expanded and improved far-reaching community-driven development projects that strengthened community participation in development and governance activities at the village and municipal levels. Third, it rehabilitated a critical secondary national road on Samar Island that is reducing transportation costs for the island's people.

As a result of the compact, through reforms at the Philippine Bureau of Internal Revenue, MCC helped the Government of the Philippines strengthen tax administration and case management systems, which helped raise tax revenues, reduce tax evasion, and address agent-related corruption. The project helped generate more than $300 million in additional domestic tax revenue since 2013. In 2017, the project contributed to the collection of $600 million from a single taxpayer. [1] In addition, 222 km of a national road serving as a lifeline for numerous towns and municipalities in one of the poorest and most typhoon-prone areas of the country was rehabilitated to new climate-resilient standards. And close to 4,000 small-scale community-driven development projects in basic infrastructure and social services were completed in rural, high-poverty areas based on needs identified and prioritized by residents across Filipino communities.

This report provides a summary of the outputs of the compact program, documentation of changes in compact activities and the reasons behind them, information on performance against targets in the monitoring plan, and the results of independent evaluations that have been completed. Further details of compact results will be shared in forthcoming impact and performance evaluations expected by early 2018 (Kalahi-CIDSS Project) and in 2019-2020 (Secondary National Roads Development Project).

Country Context

The Philippines is a sovereign island country in Southeast Asia situated in the western Pacific Ocean. It is one of Asia's two archipelagic states (along with Indonesia), comprised of more than 7,000 islands dividing the Pacific Ocean from the South China Sea. The country's development performance during the past several decades had been less impressive than that of many of its East and Southeast Asian neighbors. In the 1950s and 1960s, the country had one of the highest per capita gross domestic products (GDPs) of about $612 in the region [2] ; however, the Philippines fell behind following the 1997 Asian financial crisis. Household incomes were stagnant and inequality remained high when the country was selected as eligible to develop an MCC compact in 2008. The Philippines successfully completed a three-year Threshold Program to improve revenue administration and anti-corruption efforts in 2009.

As part of its compact development process, MCC utilized an economic report published by the Asian Development Bank in 2007 to identify the binding constraints to economic growth in the country. The report identified a lack of fiscal space for growth-enhancing public investments, poor infrastructure – namely transport and energy, weak investor confidence due to poor governance and corruption concerns, and an inability of government to address market failures that led to a very narrow industrial base.

MCC and the Government of the Philippines signed a five-year, $434 million compact in September 2010 to address the constraints outlined above. The program aimed to lay the groundwork for sustained economic growth by improving critical road infrastructure in one of the country's poorest regions; empowering citizen participation in local economic development activities, including managing community assets in a sustainable manner; and improving the effectiveness and integrity of revenue collection and administration to increase public investment and reduce tax evasion. The compact was implemented by MCA-Philippines, an institution established by the Government soon after compact signing as a condition of the MCC grant. [3]

- Original Amount at Compact Signing:
  $433,910,000
- Amount spent:
  $385,072,218

- Signed:
  September 23, 2010
- Entry Into Force:
  May 25, 2011
- Closed:
  May 25, 2016

Estimated benefits correspond to $434 million of compact funds, where cost benefit analysis was conducted.

- 125,822,000Estimated beneficiaries at the time of signing over 20 years

- $464,400,000Estimated net benefits at the time of signing over 20 years

Created with Highcharts 6.0.1Monitoring & EvaluationProgram AdministrationKalahi-CIDSS Community-Driven Development ProjectRevenue Administration Reform ProjectSecondary National Roads Development Project

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['Revenue Administration Reform Project', 30280930],

['Secondary National Roads Development Project', 199849932.15],

] }] }); });

- Compact Agreement
- Constraints Analysis
- M&E Plan
- M&E Plan

The Kalahi-CIDSS Project

- $120,000,000Original Compact Project Amount
- $124,999,276Total Disbursed

Estimated Benefits

Estimated benefits correspond to $120.0 million of project funds, where cost-benefit analysis was conducted.

Estimated Benefits for the Kalahi-CIDSS Community-Driven Development Project

Time	Estimated Economic Rate of Return (ERR) over 20 years	Estimated beneficiaries over 20 years	Estimated net benefits over 20 years
At the time of signing	12.6 percent	5,200,000	$16,600,000
At compact closure	TBD	TBD	TBD

The closeout ERR will be based on the results of the post-compact impact evaluation, expected early 2018.

Project Description

During the previous five decades, the Philippines had consistently lagged behind other countries in the region with respect to government development expenditures as a percentage of GDP and infrastructure investment and quality. Inadequacies in infrastructure were a critical constraint to economic growth in the country, and the availability of basic infrastructure (water, sanitation, roads, and electricity) had deteriorated. In addition, the provision and use of education and health services varied across regions, particularly as a function of income.

The Kalahi-CIDSS Project – *Kapit-Bisig Laban sa Kahirapan* (Linking Arms Against Poverty) Comprehensive and Integrated Delivery of Social Services – aimed to improve welfare in rural areas by targeting communities where poverty incidence was greater than the national average with small-scale, community driven development projects that targeted basic infrastructure needs. The project built upon and supported the application of the participatory planning, implementation, and evaluation methodology developed by the Government of the Philippines Department of Social Welfare and Development, in collaboration with the World Bank. The first phase of the World Bank-funded project (called KC1) was successfully implemented from 2003 to 2009 in 4,229 villages, or *barangays,* across 42 provinces, providing a wealth of information for MCC's project appraisal.

Communities were selected to participate in the Kalahi-CIDSS Project based on specific criteria, including geographic location, poverty incidence, and the ability of communities to participate in the entire program. After a community was enrolled in Kalahi-CIDSS, the Community Empowerment Activity Cycle began. Each cycle followed a progression of strategies and activities to promote transparency and accountability. Projects were designed through a consultative process that incorporated input and priorities of the entire community, including women. From procurement to implementation to maintenance, all processes were discussed and agreed upon by the community. Over the course of three cycles, MCA-Philippines' National Project Management Office gradually handed off responsibilities for the implementation of Kalahi-CIDSS activities to local governments to sustain.

The project empowered communities to participate fully in development activities that addressed the needs they identified and provided guidance on managing assets in a sustainable way. It improved the link between community priorities and the development programs of local government, and used investments in a transparent manner to promote greater accountability and reduce poverty. Grants were provided directly to local communities, who were then responsible for project selection, the procurement of goods and services, and in many cases, the operations and maintenance of physical assets.

Complementing projects like farm-to-market roads, school buildings, health stations, drainage systems and footpaths, the program also included a $1 million Gender Incentive Grant to promote gender equality and women's empowerment at the village and municipal levels. The Gender Incentive Grant funded activities that addressed barriers to either men or women participating in community activities, decision-making processes, and economic activities such as non-traditional skills training for women, women support shelters, and maternity services. The effort particularly emphasized and encouraged women's leadership and opportunities for paid employment through Kalahi-CIDSS. Women community volunteers made up 10 percent of paid skilled and unskilled labor in community project construction in 2015, a significant increase from a baseline of 3 percent in 2010. And more than 1,399 women benefited from certificate training on non-traditional skills such as plumbing, welding, electrical installation, carpentry, painting, tile-setting, hollow blocks-making and masonry.

With 3,760 small-scale, community-driven development projects in six regions of the Philippines, Kalahi-CIDSS benefited nearly 1 million households. In 2014, citing the success of the Kalahi-CIDSS Project and other community-driven development programs around the world, the Government made Kalahi-CIDSS a national model for development project planning and implementation with a focus on inclusive development and poverty alleviation. The nationwide roll-out incorporated compact-introduced enhancements, such as environmental safeguards, enhanced methods of design and construction, and support for gender integration into project design and implementation.

Evaluation Findings

Kalahi-CIDSS Project

The impact evaluation of the Kalahi-CIDSS Project will answer research questions in four themes:

1. Does the project increase household consumption and labor force participation?

2. Does the project increase government responsiveness to community needs, reduce corruption and increase transparency?
3. Does the project increase participation in local governance and contribution to public goods?
4. Does the project build groups and enhance trust?

MCC also commissioned a Cost Study to document the costs and quality of infrastructure built through community-driven development versus centrally planned projects.

Status of the Evaluation

Component	Status
Baseline Report	Completed in 2013. Report and de-identified data are public.
Midline Report	Completed in 2015. Questionnaires are public, but data are not. Data sets will be published with endline data sets in 2018.
Endline Report	Expected March 2018.

Key performance indicators and outputs at compact end date

Key performance indicators and outputs at compact end date

Activity/Outcome	Key Performance Indicator	Baseline	End of Compact Target	Quarter 1 through Quarter 20 Actuals (as of Dec 2012)	Percent Compact Target Satisfied (as of Dec 2012)
Grants for Community Projects Activity	Number of barangays that have completed all trainings during the social preparation stage	0	3,000	3,760	125%
	Number of Gender Incentive Grant-Funded Sub-Projects	0	No Target	55	No Target
	Number of sub-projects completed with 100% physical accomplishment	0	3,217	4,011	125%

Activity/Outcome	**Key Performance Indicator**	**Baseline**	**End of Compact Target**	**Quarter 1 through Quarter 20 Actuals (as of Dec 2012)**	**Percent Compact Target Satisfied (as of Dec 2012)**
	Number of sub-projects that contribute to disaster risk reduction (e.g. flood control, soil and water protection, coastal rehabilitation, mangrove management)	0	No Target	674	No Target

Explanation of Results

As highlighted above, the Government of the Philippines Department of Social Welfare and Development exceeded implementation targets, specifically, more villages completed all five stages of training and more small-infrastructure sub-projects were constructed than planned. The impact of this project on beneficiaries will be assessed in the forthcoming Impact Evaluation expected in 2018.

Revenue Administration Reform Project

- $54,300,000Original Compact Project Amount
- $30,280,930Total Disbursed

Estimated Benefits

Estimated benefits correspond to $30.2 million of project funds, where cost-benefit analysis was conducted.

Estimated Benefits for the Revenue Administration Reform Project

Time	Estimated Economic Rate of Return (ERR) over 20 years	Estimated beneficiaries over 20 years	Estimated net benefits over 20 years
At the time of signing	40.3 percent	125,000,000	$224,500,000
At compact closure	34.7 percent	125,000,000 The beneficiary count for the Project is under review by MCC and may change in the future.	$166,100,000

Estimated Benefits for Activities and Sub-Activities

Activity and Sub-Activity		Time	Estimated Economic Rate of Return (ERR) over 20 years	Estimated beneficiaries over 20 years	Estimated net benefits over 20 years
Bureau of Internal Revenue (BIR) Reform Activity	Automated Audit Tools Sub-Activity (AATS)	At the time of signing	74.9 percent		$6,000,000
		At compact closure	74.9 percent		$6,000,000
	Electronic Tax Administ ration Sub-Activity (eTIS)	At the time of signing	37.5 percent		$171,000,00 0
		At compact closure	32.4 percent		$112,500,000
Revenue Integrity		At the time	50.2 percent		$47,500,000

Activity and Sub-Activity	Time	Estimated Economic Rate of Return (ERR) over 20 years	Estimated beneficiaries over 20 years	Estimated net benefits over 20 years
Protection Service Activity	of signing			
	At compact closure	50.2 percent		$47,500,000

The Revenue Administration Reform Project ERR declined from 40.3 percent at the time of signing to 34.7 percent at closure, as the eTIS activity achieved 75 percent of its original target [4] by the compact end date. The 34.7% ERR assumes a persistent commitment to policy reform and continued investment in the staff and infrastructure of BIR after compact closure.

Project Description

One consequence of the Philippines' tight fiscal situation was a limited ability of the Government to fund its growing needs for basic infrastructure and social programs. Tax-related patterns of non-compliance and tax administration inefficiencies contributed to a poor business climate, and ultimately impacted the rate of both domestic and foreign-direct investment. [5] One of the most pervasive embodiments of corruption in the Philippines was the low rate of taxpayer compliance and alleged active collusion of revenue agents in the negotiation of tax assessments. [6]

Through its earlier threshold program, MCC provided extensive training; support for inter-agency collaboration; and IT equipment to investigators, lawyers and prosecutors in charge of pursuing corruption, tax evasion, and smuggling cases. The Revenue Administration Reform Project built on these efforts by increasing and improving the Philippines' ability to sustain higher collection of tax revenues and helping to reduce tax-related graft and malfeasance.

Project activities and sub-activities included:

- The Bureau of Internal Revenue (BIR) Reform Activity included three sub-activities:
    - The Electronic Tax Administration Sub-Activity (eTIS) computerized the business processes of the BIR, modernizing the Bureau and providing an enhanced tax administration system expected to cover 95 percent of taxpayers in the country. It increased the operational efficiency in registering taxpayers and processing tax returns and accounting payments. These enhanced business processes also worked to improve compliance, audit, and enforcement and increased tax revenue collection. Additionally, MCC co-financed technical assistance to the Bureau of Internal Revenue with the International Monetary Fund's Fiscal Affairs Department to implement reforms in basic tax administration at the procedural and technical levels, with the objective of improving core business processes for different taxpayer segments. The technical assistance redesigned procedures and identified key risks and compliance objectives in each core functional area and measures needed to address them. Through cross-project coordination, these procedural improvements were integrated with eTIS.
    - The Automated Audit Tools Sub-Activity (AATS) supplied the Large Taxpayer Unit of BIR

with software tools for use in auditing taxpayers who have automated records. These tax auditing tools significantly reduced the amount of time needed to complete an audit and addressed taxpayer concerns about fairness of tax audits based on sampling rather than a review of all transactions. The reduction in person days per tax audit helped BIR reduce its backlog of unfinished audits, promoted taxpayer satisfaction, and led to increased revenue collection of 30 percent per audit.

  - The Public Awareness Campaign Sub-Activity educated the public on BIR services and programs. It disseminated information on the reforms, modernization and enforcement initiatives of BIR to support increasing tax revenues over time. The Public Awareness Campaign promoted greater understanding of tax obligations and increased the ability of taxpayers to access tax information, which is expected to lead to better tax compliance. Greater utilization of online services also led to improved compliance by reducing taxpayer errors, such as those that might result from the introduction of a new form or new regulations.

- The Revenue Integrity Protection Service Activity strengthened revenue agency surveillance and discipline of Department of Finance staff. Through the acquisition and customization of case management software, a data repository system, training, reinforcing its surveillance capacity, and instilling discipline in Department of Finance agencies, the activity advanced the detection and punishment of forms of malfeasance that allowed revenue agents to reap financial rewards from taxpayers. By increasing the likelihood of detection and punishment, the frequency of such incidents was expected to decline, thereby improving the image of revenue generating agencies, increasing tax collection in the country.

The Revenue Administration Reform Project also facilitated an improved understanding of key gender and taxation issues through learning sessions on gender, taxation and corruption for government counterpart agencies; a study on gender and tax administration; and collection and analysis of sex-disaggregated data on taxation and corruption issues.

The goal of the Project (as reflected in the ERR) was to increase the share of government revenues as a share of GDP by 0.3 percent, which is too small an effect to measure statistically. MCC and MCA-Philippines instead tracked whether government revenue collections continued their robust growth trend, which they did — by the end of the compact, revenue from new and existing business registrants had increased from 822,624 million PhP to 1,441,571 million PhP. The project contributed to this effort by narrowing the gap between potential and actual collections and reducing the discretion of individual revenue collection officers. It also helped improve the predictability and impartiality of revenue laws and regulations enforcement. Other outcomes related to BIR efficiency generally improved, such as shorter processing times and more automated audits [7] . The Public Awareness Campaign received Araw Values Advertising awards from the Advertising Foundation of the Philippines for its effort to increase awareness of taxpayer obligations and provide information regarding how to file returns. The Automated Auditing Tools Sub-Activity reported substantial gains in tax audit and arrears management programs. Additionally, as part of the Revenue Integrity Activity, 220 people were charged with graft, corruption, lifestyle and/or criminal offenses. [8]

While the Revenue Administration Reform Project achieved impressive results, MCC and the Government of the Philippines did encounter significant challenges implementing the two systems development and systems infrastructure components of the project: (i) the new Revenue Integrity

Protection Service automated system to help detect possible illicit financial gains by employees of the government's revenue agencies; and (ii) eTIS, the tax administration system intended to eventually replace the BIR's legacy tax administration system, ITS. While the Revenue Integrity Protection Service activity consisted of the design and implementation of a new software application to sit on a new, stand-alone hardware infrastructure within a refurbished and secure office space, eTIS was the continuation of a project started by the BIR several years before the compact. The primary hurdles that had to be overcome had to do with, respectively, the newness of the Revenue Integrity Protection Service activity's automated system and linking eTIS to past systems. Both represented the first significant systems development efforts funded by an MCC compact.

As initially envisioned, eTIS would complement broader reform efforts with technical assistance from the IMF that would help incorporate improved policies and procedures regarding tax administration at BIR. This involved expanding the level of effort and cost to customize the auditing and compliance modules of the system, cleaning up the existing registration data base and making the data more accessible, secure, and trustworthy. It also required the BIR to shift its organizational resources to focus on large taxpayers and VAT collection efforts. These ambitious objectives required intense collaboration with BIR to ensure ownership of the direction and implementation of the activity. MCC and MCA-Philippines had to refine procurement preferences and expectations to accomplish the activity's objectives, which significantly differed from the methodology that was intended in the original design. As a result of implementation challenges, including difficulties in procurement, project management and delays in decision-making, the original target for the number of Revenue District Offices (RDOs) to be covered by eTIS was revised from 128 down to 13 BIR offices, covering 73 percent of taxpayer revenue. Following compact closure, the BIR committed to rolling out eTIS to cover 95 percent of taxpayer revenue and to developing and implementing five additional modules of eTIS.

Evaluation Findings

Revenue Administration Reform Project

A performance evaluation of the Revenue Administration Reform Project was completed in March 2017. The RARP evaluation aimed to measure changes brought about by the project on: (1) efficiency of tax administration, (2) tax revenue, and (3) perceptions of corruption in the tax administration. Findings include:

- At least some portion of all the components of the project were implemented, although to a scaled-back level, with mostly positive staff feedback.
- The new systems seem to be more efficient, but their sustainability is at risk because the systems had limited capacity to handle additional users, and there is wide variation in the skills of BIR staff.
- Tax revenues have increased, as has revenue collected per audit.
- Taxpayers' perception of corruption (that there is a 'great deal of corruption') has decreased significantly for the Bureau of Internal Revenue (from 52 to 46 percent) and for the Department of Finance (from 48 to 38 percent), and has remained essentially the same for the Bureau of Customs (from 74 to 72 percent), [9] which was the control.
- Public awareness campaigns were locally well-received, won awards, and were deemed effective in improving taxpayers' understanding of their tax obligations, per the evaluation. The impact on tax

compliance was not measured but should be tracked in the future.

- In regards to the Revenue Integrity Protection Service, the case management system was not fully operational until late in the compact. Even with this delay, the project succeeded in shortening the time to bring cases to the point of prosecution from 892 days to 194 days, on average. The pace of investigations was hindered by a slow response from government agencies, lengthening the time of case resolutions. While the project improved the investigative unit's ability to bring cases to the point of prosecution, getting to case resolution still required more than 3 years, on average, because of the culture in the judiciary, which allowed perpetual postponement of hearings and case disposition due to mass appeals. Resource constraints burdened the delivery of court services, such as serving subpoenas, locating and bringing witnesses and accused to trial, and arresting convicted felons who were evading sentencing. As judges controlled the pace of trial and decided on cases, the lack of court efficiency and court predictability inhibited enforcement effectiveness.

Status of the evaluation

Component	Status
Baseline Report	N/A
Midline Report	N/A
Endline Report	Reports, Questionnaires and datasets are public.

Key performance indicators and outputs at compact end date

Key performance indicators and outputs at compact end date

Activity/Outcome	Key Performance Indicator	Baseline	End of Compact Target	Quarter 1 through Quarter 20 Actuals (as of Dec 2012)	Percent Compact Target Satisfied (as of Dec 2012)
Bureau of Internal Revenue (BIR) Reform Activity	Number of BIR offices using the: Tax Registration System (TRS) module, the Returns Filing and Processing (RFP) module, the Collection, Remittance, and Reconciliation (CRR-1) module, the Case	0	13	13	100%

Activity/Outcome	Key Performance Indicator	Baseline	End of Compact Target	Quarter 1 through Quarter 20 Actuals (as of Dec 2012)	Percent Compact Target Satisfied (as of Dec 2012)
	Management System module, and the Audit module of the electronic Tax Information System (eTIS)*				
	Number of new business registrants	1,821,599	N/A	2,405,133	N/A
	Number of tax returns (eTIS) captured in the system	0	N/A	343,748	N/A
	Percentage of audit cases performed using Computer-Assisted Audit Tools (CAATS)*	3%	95%	100%	105%
	Percentage of audit completed in compliance with the prescribed period of 180 days*	1%	50%	4%	6%
	Revenue collection per audit*	2,500,000	4,300,000	74,556,854	4,003%
	Revenue from new and existing business registrants (millions of Philippine Pesos)*	822,264	1,969,999	1,441,571	54%
Revenue Integrity Protection Service Activity	Number of personnel investigated	110	330	475	166%
	Number of successful case resolutions	28	140	100	64%
	Personnel charged with graft, corruption, lifestyle, and/or criminal	67	250	220	84%

Activity/Outcome	Key Performance Indicator	Baseline	End of Compact Target	Quarter 1 through Quarter 20 Actuals (as of Dec 2012)	Percent Compact Target Satisfied (as of Dec 2012)
	cases				
	Time taken to complete investigation (days)	120	60	266	-243%

Explanation of Results

All indicators with an asterisk have data from Quarter 18 (October to December of the final compact year) of the compact instead of Quarter 20, which corresponds to annual data from the Bureau of Internal Revenue, which has a year end of December. There are no targets for many of the indicators, because the ERR for this project did not provide targets.

A major component of the eTIS Sub-Activity was replacing the failing software at BIR with a new software package. Although 96 percent of audits still take longer than the proscribed period of 180 days, the increase in revenue collected per audit demonstrates the new focus on auditing large taxpayers.The Automated Audit Tools Sub-Activity enabled auditors to automate time-consuming tasks such as matching transactions based on third-party databases and validating taxpayer identification numbers, but reconciliation, as part of taxpayers' rights, tends to lengthen the audit process.

While the Revenue Integrity Protection Services (RIPS) have investigated more people than targeted, charging personnel and resolving these cases has been complicated because many components of that process are outside the control of RIPS. In terms of charging personnel, a significant number of cases were closed due to insufficient evidence and the large volume of on-going cases. In terms of case resolutions, the end-of-compact target was not reached because decisions in these cases are made by the Ombudsman or Civil Service Commission and not RIPS. The target was not met for time taken to complete an investigation because RIPS must request documents and wait for replies from agencies within Department of Finance such as BIR and Bureau of Customs and from agencies in other ministries, such as the Bureau of Immigration and the Land Transportation Office.

Secondary National Roads Development Project

- $214,440,000Original Compact Project Amount
- $199,849,932Total Disbursed

Estimated Benefits

Estimated benefits correspond to $199.8 million of project funds, where cost-benefit analysis was conducted.

Estimated Benefits for the Secondary National Roads Development Project

Time	Estimated Economic Rate of Return (ERR) over 20 years	Estimated beneficiaries over 20 years	Estimated net benefits over 20 years
At the time of signing	13.7 percent	282,000	$25,000,000
At compact closure	8.9 percent	282,000	$-12,400,000

The closeout ERR reflects a best estimate of the economic rate of return using the information available at the time of compact closure. Some parameters in the project's closeout ERR were updated according to data collected by the end of the compact such as traffic counts and vehicle maintenance costs. Other data typically collected after a road is completed, such as road roughness and deflection measurements, were either conflicting or unavailable. The closeout ERR was also calculated following reports received in March 2017 that identified some defects in the newly constructed road during the Defect Notification Period (DNP). The lower closeout ERR reflects higher costs at closeout than anticipated at compact signing and an assumption that the observed defects signaled that the road was likely to deteriorate faster than originally forecast if the defects were not corrected by the end of the DNP. However, the detailed quantitative data that is needed to precisely calculate the impact the defects in the road would have on its longevity was not yet available at the time of closeout. This data will be collected during the independent evaluation of the Roads Project and the ERR will be updated in late 2020 when the evaluation report is finalized.

Project Description

Inter- and intra-island transport systems play a crucial role in supporting the economic development of the widely dispersed regions of the Philippine archipelago. However, the poor condition of infrastructure facilities and lack of reliable, safe, and efficient transport services have significantly hampered the movement of passengers and cargo throughout the country, limiting direct internal and external trade links and tourism, and constituting a major constraint to regional economic growth. This is particularly true in many poor areas of the Philippines, where improved accessibility has the potential to lower marketing costs for local agricultural products, improve access to social services and economic opportunities, and catalyze investments to develop local resources. Secondary national roads are important contributors to economic growth, especially in rural areas. Roads are the dominant mode of transport in the Philippines, accounting for 53 percent of freight and 89 percent of passenger traffic in the country. The Philippines has a total road network of approximately 200,000 km, including some 29,000 km of national roads. Approximately 79 percent of the national arterial roads are paved, and 48 percent of these require rehabilitation. [10]

The Secondary National Roads Development Project was designed to reduce transportation costs and provide additional economic opportunities to rural residents in one of the poorest and most typhoon-prone regions of the country. The project was originally designed to reconstruct and rehabilitate 222 km of the Samar road crossing the provinces of Samar and Eastern Samar. The project also provided an opportunity for MCC to partner with other principal donors active in road maintenance so a singular policy framework could be pursued.

The Philippines is susceptible to natural disasters; in particular, typhoons, flooding and landslides present an ever-present threat to road construction. In recent years, the cost of road construction in the Philippines has escalated because of the impact of increasingly frequent severe weather events. Due to the significantly high cost, infrastructure investments are often insufficiently designed and evaluated, resulting in long-term failure. The Secondary National Roads Development Project considered the adverse effects of heavy rainfall, flooding, and typhoons in its design using climate models to examine how changes in storm intensity, numbers and frequency could impact the road, particularly drainage. Drains were changed from a previous standard of withstanding 1 in 20 year events to 1 in 50 year events. Bridges were raised to allow for more clearance during flood events.

The project also faced particularly challenging conditions for implementation due to weather on the island. Recognizing the need to begin construction on the road project as soon as possible, the Government and MCC jointly developed a mechanism for MCC to procure and contract the road design while instituting a management system of the design that was Philippines-led with the Department of Public Works and Highways at the forefront of decision-making and design reviews. This allowed for efficient and effective development of the road design and the procurement of civil works contracts in impressively quick fashion. This creative approach to road design also allowed for an early and proper evaluation of the budget requirement for the project.

As a result, the climate-resilient road ultimately withstood Super Typhoon Yolanda (internationally termed Haiyan) in 2013 and Typhoon Ruby in 2014, providing invaluable connectivity to the 14 municipalities along the road and immediate employment opportunities to more than 2,000 local residents in the aftermath of the storms. Shortly after Typhoon Yolanda struck, the Samar Road was a major conduit for relief supplies on the island of Samar. Compact contractors were able to mobilize equipment quickly to help clear the road and debris in coordination with local governments, and joined the larger relief effort in many communities along the road as well as in the city of Tacloban, Leyte. Protective measures taken by MCA-Philippines, contractors and consultants leading up to the storm, as well as the incorporation of more climate-resilient standards in the road's design, limited damage to newly constructed road segments. The teams identified practical and helpful solutions to address many crosscutting issues in the aftermath of the storm, such as ensuring continued resettlement assistance to project affected entities, countering trafficking in persons, and coordinating an expansive tree re-planting program.

MCC and MCA-Philippines collaborated to accelerate the project schedule to ensure the road's timely completion as a way to directly support and facilitate other ongoing aid and reconstruction efforts in Eastern Samar. Compact-funded contractors voluntarily made their equipment and materials available to clear the roads in Samar so that food, water and medicine were brought to people in need quickly to prevent further devastation and loss of lives. Compact partners also collaborated with local organizations and international donors to reinforce vigilance against human trafficking; historically, a large percentage of victims of human trafficking in the Philippines have come from Samar, and with the typhoon remnants, that population was even more vulnerable as many social safety nets were washed away by the storm.

In addition, the project included efforts to empower communities to address the threat of trafficking in persons (TIP) through education and awareness of this threat. The project utilized innovative tools to address common pitfalls of infrastructure projects which included:

- piloting a ground-breaking community-managed road maintenance program, a joint initiative of the Department of Social Welfare and Development and Department of Public Works and Highways, to ensure effective, sustainable routine maintenance of the newly rehabilitated road;
- implementing a gender toolkit in the design and construction phases to help ensure the project included all beneficiaries, regardless of gender; support for women's economic opportunities arising from road construction activities;
- utilizing an International Road Assessment Programme (iRAP [11]) to improve safety characteristics for road users along the road; and
- employing advanced technology to incorporate in-situ materials in the newly constructed road (i.e. recycling existing pavement and using existing pavement as a base layer), thereby minimizing the need to quarry and transport new materials.

With northern sections of the road passing through Samar Natural Island Park, home to several protected species, including the critically endangered Philippines Eagle, MCC and the Government took particular care to build safeguards into the road design. The environmental and social impact assessments were highly detailed, and observations on protection of flora and fauna were built into contractors' environmental and social management plans. Also noteworthy was the continuing collaboration, guided and encouraged by MCC, between the Department of Natural Resources and Environment and the Department of Public Works and Highways on reforestation of 100 trees for each one removed. The Tree Reforestation Program employed local residents along the road who were trained in establishing nurseries and tree replanting. The replanting program, which included mangrove reforestation – especially relevant for the eastern seaboard as both a natural barrier to storm surges and a source of fisheries-based community livelihoods – will provide a source of future income for residents while ensuring environmental sustainability.

By the end of the compact, the Secondary National Roads Development Project completed rehabilitation of 175 km of road, including 59 bridges, to new climate-resilient standards on a key national road on Samar Island, connecting some 14 municipalities, a city, and 134 barangays. Additionally, the project led the Department of Public Works and Highways to adopt gender-inclusive initiatives in their standard operating procedures.

While nearly all of the originally planned sections of road were completed at the end of compact, conditions exacerbated by climate events on parts of the road, including new landslide remediation and enhanced bridge repair, required a time extension beyond the compact to complete the work. The Government committed its own resources to successfully finish the remaining work, mainly focusing on rehabilitation works on two bridges and land remediation, as well as assurance to commit necessary funds and resources for the operations and maintenance of all project roads. All 222 km are now open to traffic, and the roadway is functioning safely for its intended purpose.

Evaluation Findings

Road improvement is expected to reduce vehicle operating costs, reduce travel time, decrease maintenance costs, and increase the value of goods moved and the frequency of travel. MCC's independent evaluation of this project will: (i) determine the post-compact ERR using HDM-4 analysis [12] ; (ii) assess the road maintenance system; (iii) analyze the composition of road users; and (iv) assess the transportation market structure.

Status of the evaluation

Component	Status
Baseline Report	N/A
Midline Report	N/A
Endline Report	The evaluation is scheduled to be completed in fall 2019, after a three-year exposure period, with a final report to be submitted in 2020.

Key performance indicators and outputs at compact end date

Key performance indicators and outputs at compact end date

Activity/Outcome	Key Performance Indicator	Baseline	End of Compact Target	Quarter 1 through Quarter 20 Actuals (as of Dec 2012)	Percent Compact Target Satisfied (as of Dec 2012)
Samar Road Activity	Average annual daily traffic	1,179	1,450	2,030	140%
	Kilometers of roads vehicle-passable (lanes)	0	444	444	100%
	Road traffic accidents	59	N/A	$55	N/A
	Roughness	7.1	3.5	1.83	191%

Explanation of Results

At compact end, although all 222 kilometers of the road were vehicle-passable, i.e. drivable, certain sections of the road were not complete. The contractor issued turn-over certificates for 175 kilometers of road to the Department of Public Works and Highways of the Philippines, indicating that these kilometers were completed. For the other 47 kilometers, the main carriageway was finished but drainage and shoulders remained incomplete.

Compact Changes

In July 2015, MCC approved reallocation of $23 million from total anticipated compact savings, of which up to $12 million would be used to fund additional projects under the Kalahi-CIDSS Community-Driven Development Project and up to $11 million would be used to cover a projected budget shortfall on the Secondary National Roads Development Project. Compact savings were attributed to a clarification of the scope of the Revenue Administration Reform Project's Electronic Tax Information sub-activity, and savings in program management and oversight.

Coordination and Partnerships

The Philippines Compact is an example of collaborative and committed coordination on many levels. Throughout the implementation of the compact and across two presidential administrations, the Government of the Philippines consistently fulfilled its commitments, both operationally and financially, and provided high-level support for each of the projects, including active participation at the Cabinet level for specific project matters requiring special attention, as well as involvement at quarterly MCA-Philippines Board meetings.

Collaboration between Peace Corps and MCC played a significant role in the execution of the Kalahi-CIDSS Community-Driven Development Project. Peace Corps Volunteers assisted implementing partners in documenting projects' impacts. Additionally, MCC engaged the World Bank in developing a rigorous impact evaluation of both MCC and World Bank-funded municipalities within Kalahi-CIDSS. This innovative evaluation informed the scale-up of the government's national community driven development project, revealing deficiencies in the original model, and provided an independent assessment of Kalahi-CIDSS' impact, specifically on returns to MCC's investment. Furthermore, it contributed to broader research about the impacts of community-driven development programs.

In collaboration with the Department of Public Works and Highways and the Department of Social Welfare and Development, the first contract package of the Secondary National Roads Development Project served as a pilot for the Government's Community Managed Road Maintenance Program, whereby residents along the road managed routine road maintenance works, helping to sustain its quality and life in addition to providing employment for women residing in nearby communities. The program was scaled up in the remaining three contract packages within MCC's roads project. MCC supported the government in updating guidelines for the road maintenance program, incorporating a provision on women's employment that helped ensure the sustainability of MCC's efforts to provide these opportunities to women residing in communities where the road was being constructed.

The Revenue Administration Reform Project was the first time that MCC engaged the International Monetary Fund as a project resource for technical assistance, and it was viewed as a successful partnership. The IMF was given the flexibility to independently identify problems and recommend timely measures to address them. This flexibility allowed the IMF to focus on critical topics such as a Value Added Tax (VAT) audit and arrears management. As a result, revenue performance improved markedly in the Bureau of Internal Revenue, with new techniques and procedures adopted that have uncovered large amounts of outstanding tax debt and identified large amounts of undeclared VAT through audits. More generally, these and other successes led the staff most closely associated with these reforms to become more comfortable about questioning the old ways of doing things, and instead, looking for more efficient and effective options. For the first time in BIR's history, information was compiled on the large amount of tax debt currently outstanding, and informed decisions were made about which debts were collectible. Using the re-engineered procedures and a centralized organizational structure, actual debt collections improved dramatically. In VAT audit both the amounts of outstanding VAT assessed as owing and actual collections of those amounts improved significantly.

In conjunction with civil society, the Government of the Philippines advanced an open government initiative (prompted by a call to improve performance on the MCC scorecard), where government agencies are required to report public performance on targets and be open to public discourse and evaluation. Quarterly public fora occurred throughout the compact period. MCC representatives participated as observers, and participation by government agencies expanded.

MCA-Philippines fostered an agreement among several government departments to implement a robust Tree Replacement Program on Samar Island. Some 772,900 trees [13] were planted in Samar to replace about 7,729 trees affected by the Secondary National Roads Development Project. The Tree Replacement Program contributed to the government's National Greening Program, and it also encouraged the employment of women.

In support of vigorous reforms at the Bureau of Internal Revenue, the Revenue Administration Reform Project benefited from unique and collaborative partnerships. The Project brokered assistance from the U.S. Treasury Office of Technical Assistance to re-design tax forms that were used in recent tax collection campaigns. It also utilized technical assistance from the IMF, which has also served as a coordination mechanism among donors at BIR, including USAID.

MCA-Philippines also undertook a series of educational and outreach activities on anti-trafficking in partnership with local and national governments as well as NGOs, as many communities where compact projects were being implemented were deemed at risk, including in particular, Eastern Samar. In carrying out outreach and training in communities, MCA-Philippines partnered with Pact, an international NGO, and with the national Inter-Agency Council Against Trafficking and local councils against trafficking.

Conditions Precedent

To encourage desired investment outcomes under the compact, MCC and the Government of the Philippines agreed that the following conditions had to be met before critical funding would be available:

Key Conditions Precedent

Key Compact Component(s)	Major Condition Precedent or Policy Reform Required	Rating
Kalahi-CIDSS Community-Driven Development Project	**Kalahi-CIDSS** Prior to EIF and annually thereafter, Department of Social Welfare and Development will provide MCC with a staffing plan and budget illustrating DSWD’s total contribution of USD $12 million in staff and funding over the life of the compact.	Met on Time
Revenue Administration Reform Project	**Revenue Administration Reform Project** Bureau of Internal Revenue shall have established a Project Implementation and Monitoring Office who will have: (i) full time permanent staff members dedicated to the design and implementation of tax reform initiatives; (ii) sufficient number of support staff to complete eTIS; and (iii) clear responsibility for all modernization initiatives.	Met one quarter late so that BIR could complete development of a staffing plan.
Revenue Administration Reform Project	**Revenue Administration Reform Project** By February 27, 2012 and annually thereafter, the IMF shall submit an annual assessment of BIR’s continued demonstration of commitment to tax reform, as evidenced by: (i) follow-through on decisions to reallocate staff to high-priority tasks; (ii) successful deployment of eTIS; and (iii)	Met on time and annually thereafter, despite some difficulties fully implementing eTIS. A prerequisite for the continuation of eTIS was that each year the IMF in its assessment would rate BIR’s dedication of resources and progress toward goals as “satisfactory.”

Key Compact Component(s)	Major Condition Precedent or Policy Reform Required	Rating
	the maintenance and satisfactory staffing of the tax reform group.	The BIR’s performance was rated as satisfactory in each of the IMF’s annual assessments.
Revenue Administration Reform Project	**Revenue Administration Reform Project** RIPS shall have: (i) an approved and funded budget to hire a minimum of 25 full-time and permanent staff; and (ii) hired or acquired through internal transfers key members of the RIPS and an adequate number of support staff.	Met on Time
Secondary National Roads Development Project	**Secondary National Roads Development Project** Department of Public Works and Highways shall provide proof of the availability of sufficient funds for the acquisition of land required for the Secondary National Road Project implementation.	Department of Public Works and Highways included requisite funding in their budget request on time. However, fulfillment of the CP had to be deferred until the budget was passed by the Philippine Congress. CP was satisfied in July 2012.

Lessons Learned

Finish detailed design work before compact signing. Given the complexities of implementing a very large development assistance program within five years, a key lesson from the Philippines Compact is that programs must be as fully designed as possible at compact signing, balancing aspirational objectives, MCC investment considerations, and the mandated implementation timeline. In each of the Philippines Compact projects, the extent to which the activities benefitted from a thorough and advanced design had both positive and negative implications for results throughout the course of implementation. For example, the creful incorporation of climate-resistance considerations in the road project designs provided opportunities to overcome the significant challenges posed by Super Typhoon Haiyan, not only for the project, but also for the impacted communities. The Kalahi-CIDSS project focused on taking a proven design and incorporating key improvements to broaden its impact and coverage, and served as a model for a larger national program. In contrast, the Revenue Administration Reform Project suffered most notably from some project design weaknesses, which created significant implementation issues that were ultimately overcome, but provided important lessons.

Kalahi-CIDSS Community Driven Development Project

Improve oversight of small-scale infrastructure projects through shared tools and processes. Three-fourths of poor people in the Philippines live in rural areas. For Kalahi-CIDSS, a very complex project over a geographically disperse area, effective oversight and management of the project was a risk. However, after approximately two years of compact implementation, MCC oversight of the Kalahi-CIDSS project established a rhythm of oversight where several key stakeholders – MCC, MCA-Philippines, and the Department of Social Welfare and Development – began using the same oversight tools and processes in field visits. Whenever a member of the MCA-Philippines or MCC project and technical teams traveled to the project sites, they used similar tools and processes, such as a project completion report summary and rating form which monitored performance at a technical level. This allowed for a shared understanding of oversight and common language and understanding as site visit findings were discussed, best practices were shared, and problems were resolved. This shared approach reduced the perceived risk of project oversight and management and can be adopted by other widely dispersed small infrastructure projects as well.

Incorporate sustainability measures in project design. The sustainability of results was considered a risk in the Kalahi-CIDSS project. To ensure the sustainability of sub-projects, MCC and MCA-Philippines incorporated several key activities into project design. First, the organization of operations and maintenance groups in the project communities was critical. Moreover, the project provided technical support to educate project beneficiaries on operations and maintenance matters through technical manuals and training on the repair and maintenance of the facilities. Finally, developing partnerships with local NGOs and the private sector served to enhance project performance and functionality of sub-projects. MCA-Philippines partnered with local companies FELTA Multi-media, Inc. and Synergeia to provide training on the use of Lego blocks as educational tools for early childhood development to 121 day care center teachers. The training was accompanied by a donation of a Lego Charity Box to each of the day care centers. These partnerships included training of teachers and local school boards on Lego blocks as educational tools in early childhood development and teaching problem solving, visual and motor skills, and values formation. This thoughtful and layered approach to sustainability could serve as a model for small, community-led development projects in the future.

Revenue Administration Reform Project

Design with implementation in mind. The Revenue Administration Reform Project included four distinct activities that together were intended to increase tax revenues over time and support the Department of Finance initiatives to detect and deter corruption within its revenue agencies. This investment would have been more effective with greater focus on fewer integrated activities, developing achievable goals and timelines, recalibrating scope definitions in the face of technical setbacks, and managing expectations. While a number of sub-activities were implemented smoothly, the absence of these factors was evident in the implementation of the eTIS sub-activity. Setbacks resulted in partial implementation and system development that continued past the compact end date, creating challenges for the government in securing donor funding to build upon the systems and procedures initiated under the project. The primary hurdle to overcome related to the size and scope of the system development effort, the first investment of its kind for MCC. The result was implementation challenges involving several sequential stages and reassessments of the project's direction, coupled with slow decision making.

Drawing from this experience going forward, projects involving major IT systems installation and adoption must ensure no more than a manageable level of customization of off-the-shelf software. For eTIS, the volume of software customization was one of the main sources of implementation delays, which ultimately reduced the scope and reach of the final product. The system will require continued investment to not only adapt its functionality to changes in tax laws and regulations, but also to modify and implement several modules that were not part of the version that was implemented during the compact. A persistent commitment to policy reform and continued investment in the staff and infrastructure of BIR is required for the project to be sustained.

Explore donor partnerships to improve program sustainability and maximize sectoral impact. Given MCC's technical expertise and timeline limitations, the agency engaged the expertise of the International Monetary Fund (IMF) as a third-party project resource to provide technical assistance to the Bureau of Internal Revenue to implement a program of tax administration reforms over a five year period. Rather than follow a narrow, prescriptive scope of pre-identified services, the IMF had the flexibility to independently identify problems during the compact period and to recommend timely measures to address them. This allowed for a range of activities that were not identified initially but were responsive to the prevailing circumstances and the current operational environment. As a result, the IMF advisory activities were free to focus on several critical topics, including VAT audit and arrears management.

The experience illustrates the benefits of engaging third-party assistance to meet a country's needs in a sector. The long-standing partnerships and technical expertise that these agencies enjoy in the recipient countries and the donor community, coupled with their process flexibility, can be used as a comparative advantage and enable technical assistance to be developed on the basis of a more inclusive dialogue and within the context of a coherent development framework that goes beyond just the financial aspect. As part of this effort, MCC can use these existing relationships to strengthen its partnerships with the donor community by collaborating on a broader, longer-term and more strategic basis.

Gender Integration

Leadership support and capacity building activities help ensure gender integration is a priority for compacts during implementation. MCA-Philippines had high capacity, willingness and openness to integrate gender equality objectives throughout compact activities. High-level CEO support trickled down to team leads and other members of the team, helping to ensure that the compact was highly successful in gender integration. At the same time, in particular during compact implementation, experiences in this compact reinforced the importance of continued capacity building for contractors, implementing entities, and others tasked with implementing gender requirements that may be unfamiliar to them. These experiences reiterate several critical lessons for future compacts. The first is the importance of MCA leadership setting the tone about the importance of gender integration from the beginning of compact implementation. Ensuring and incentivizing MCA CEOs to show leadership for social and gender integration is critical and could be encouraged through a variety of ways by MCC, such as performance evaluations or annual recognition by MCC for MCAs that do a good job with social and gender integration. The second lesson suggests the need for incorporating capacity building activities, such as training on critical social and gender issues in infrastructure, into compact implementation processes and milestones, in order to ensure that implementers and contractors understand and can adequately address these requirements. Contractual clauses, Social and Gender Integration Plans, and implementing entity agreements are good tools for such capacity building.

Endnotes

1. Business World: PHL seeks US assistance for tax academy program
2. Data from World Economic Outlook (IMF, various years); World Development Indicators (World Bank, various years); and Statistical Data Book (CEPD, various years). Figure is expressed in 2000 United States dollars.
3. Under its country ownership model, MCC's counterparts are responsible for implementing MCC-funded programs. Partner governments establish entities known as accountable entities referred to as MCAs to manage implementation for compact projects.
4. The first five modules of eTIS were rolled out to 13 Revenue District Offices (RDOs) by compact end. Because these 13 RDOs are in the largest economic areas of the country, the percentage of tax revenue collected by these RDOs represents 75% of tax revenue. The original target was to implement the eTIS modules in all RDOs.
5. The Philippines had ranked the lowest among its regional neighbors in foreign direct investment since the Asian financial crisis of 1997.
6. In a 2007 survey by Social Weather Stations, 33% of enterprises reported that they were asked for a bribe connected to the payment of taxes. The 2007 SWS Survey of Enterprises on Corruption is included in the BIR's Trainer's Manual on Corruption Prevention.
7. The Bureau of Internal Revenue has a citizens' charter which is posted on its website. The charter covers the frontline services available to taxpayers, the applicable fees and forms, and expected processing times. Actual processing times achieved are published.
8. IMF Fiscal Affairs Department Final Project Assessment Report (August 2016).
9. 2007 Social Weather Stations Survey
10. "Philippines: Critical Development Constraints," Asian Development Bank, December 2007.
11. The International Road Assessment Programme (iRAP) assesses roads all over the world and aims to significantly reduce road casualties by improving the safety of road infrastructure.
12. MCC is funding the evaluation of the road using HDM-4. HDM-4 is a road investment appraisal method that monetizes time savings and vehicle wear and tear based on road conditions. It calculates reduced vehicle operating costs, reduced travel time, and changes in road maintenance costs.
13. Annual Summary Report on Philippine Compact (March 2017)

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